

OPEN MEETING



0000111490

ORIGINAL

**MEMORANDUM
RECEIVED**

Arizona Corporation Commission

2010 MAY 11 P 2:08

DOCKETED

TO: THE COMMISSION

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

MAY 11 2010

DATE: May 11, 2010

DOCKETED BY	
-------------	--

RE: ARIZONA PUBLIC SERVICE COMPANY-APPLICATION FOR
AUTHORIZATION TO APPLY THE CREDIT CUSTOMER BALANCE IN ITS
NET GAINS ON UTILITY PROPERTY ACCOUNT TO ITS DEMAND-SIDE
MANAGEMENT ADJUSTOR CHARGE ACCOUNT (DOCKET NO. E-01345A-10-
0092)

BACKGROUND

On March 12, 2010, Arizona Public Service Company ("APS") filed its request for authorization to apply the credit customer balance in its Net Gains on Utility Property account to its Demand-Side Management Adjustor Charge ("DSMAC") account. On June 28, 2007, the Arizona Corporation Commission ("Commission") issued Decision No. 69670 which granted APS pre-approval of certain property transactions subject to certain conditions and limitations specified in the Order. One requirement imposed on APS in Decision No. 69670, was that fifty percent of the net gain on pre-approved transactions would be credited to APS ratepayers by placing the ratepayers' portion of the gain in a separate account that accrues interest. In addition, Decision No. 69670 ordered that "[n]o less often than once every two years on April 30 of even numbered years, the entire amount in the account, if \$100,000 or greater, will be either refunded to customers or utilized by APS to fund programs that will directly benefit customers as directed and approved by the Commission. However, should the amount in the account reach \$1.5 million earlier than six months prior to an April 30 disbursement date, disbursement of the entire amount in the account, in the manner described above, shall be undertaken as soon as practicable."

On February 23, 2010, APS filed its Transfers of Utility Property quarterly report for the fourth quarter of 2009 in Docket No. E-01345A-06-0770 in compliance with Decision No. 69670. APS reported a credit customer balance of \$118,079 in its Net Gains on Utility Property account as of December 31, 2009.

STAFF ANALYSIS

In its application, APS states that because the amount of the Net Gains on Utility Property account is so small, applying the \$118,079 to the DSM Charge account to reduce the impact of the DSMAC would directly benefit APS customers. According to information provided by APS, if the \$118,079 were directly refunded to customers on a pro rata basis, each

customer would receive a one time credit of approximately \$0.07. Staff agrees that applying the \$118,079 to the DSMAC balance would directly benefit APS customers. This would slightly reduce the DSM adjustor rate customers would pay on their electric bill. When the new DSM adjustor rate takes effect with the first billing cycle in March 2011, the amount used to calculate the new rate would be lower by \$118,079 plus the amount of interest that the \$118,079 would have accrued in the account from the time it was paid until March 1, 2011. The reported customer balance of \$118,079 represents only the customer portion of the net gain on the property transactions and is equal to 50 percent of the entire net gain on the property transactions plus interest.

Staff has reviewed the other conditions placed by Decision No. 69670 on APS' pre-approval to transfer, sell, mortgage, or lease used and useful property. Based on the quarterly reports filed for 2008 and 2009, Staff has determined that APS has remained within the per-transaction cap and annual limitation specified in Decision No. 69670. In addition, Staff has concluded that APS has met all other restrictions and reporting requirements ordered in the Decision.

The pre-approval granted in Decision No. 69670 included lease transactions within the conditions and limitations specified in that Decision. However, lease payments are credited to Rent from Utility Property, where customers receive the full benefit of the payments¹. The lease payments are not credited to APS' Net Gains on Utility Property account where they would benefit customers only in the amount of 50 percent of the lease payment amounts. Although the revenue credit from lease transactions is not included in the Net Gains on Utility Property account, the transactions are reported in quarterly reports as required by Decision No. 69670.

Below are tables and summaries of the transactions beginning January 1, 2008 through December 31, 2009.

2008 Transactions in the Net Gains on Utility Property account

Customer Account Balance as of 12/31/2007	\$271,768*
Interest from 12/31/2007 to 6/30/2008	\$4,335
Goodyear Service Center Land 5/2007	\$36,102
Customer Account Balance as of 6/30/2008	\$40,437
Interest from 6/30/2008 to 12/31/2008	\$1,266
Sundance Power Plant Easement 7/15/2008	\$57,995
Redhawk Power Plant Easement 8/11/2008	\$20,648
Customer Account Balance as of 12/31/2008	\$120,346

*Per ACC Decision No. 70295-APS applied the entire \$271,678 credit customer balance in its Net Gains on Utility Property account to reduce the balance in its DSMAC account.

¹ Lease payments are credited to Rent from Utility Property in accordance with the Federal Energy Regulatory Commission's ("FERC") rules and regulations on accounting and financial reporting.

- The Goodyear Service Center Land transaction was inadvertently omitted from its 2007 second quarter Report on Transfers of Utility Property. This transaction was the sale of a portion of land at the Goodyear Service Center for a road widening project by the City.
- APS granted an easement to Transwestern Pipeline Company which encumbered 8.42 acres of land adjacent to the Sundance Power plant for construction of its Phoenix Expansion Project.
- APS granted an easement to Transwestern Pipeline Company which encumbered 16.42 acres of land adjacent to the Redhawk Power plant for construction of its Phoenix Expansion Project.

2009 Transactions in the Net Gains on Utility Property account

Customer Portion Account Balance as of 12/31/2008	\$120,346
Interest from 12/31/2008 to 6/30/2009	\$242
Santa Rosa Substation Easement 2/12/2009	\$4,207
Waddell Substation 6/1/2009	(\$6,948)
Customer Account Balance as of 6/30/2009	\$117,847
Interest from 7/1/2009 to 12/31/2009	\$232
Valley Farms Control House Sale 9/1/2009	\$0
Customer Account Balance as of 12/31/2009	\$118,079

- APS granted an easement to Salt River Project encumbering 0.85 acres of land adjacent to the Santa Rosa substation for use in an electric transmission line project.
- In Decision No. 69670 APS was granted authorization to sell the land where the Waddell Substation was located. APS filed a letter in this docket on June 10, 2009, advising the Commission that the new area substation was operational, that all APS equipment had been removed from the site, and that the transaction was complete.
- APS and Western Area Power Authority ("WAPA") expanded the Valley Farms Substation (69 kV to 12 kV). APS built a new control house and therefore APS sold the previous control house to WAPA to be used for the new connections of its lines to Coolidge and Hayden. The control house was sold at net book value and eliminated the cost of removing the old control house for APS.

In addition, the interest rate used is the same rate used to accrue interest on customer deposits as specified in Decision No. 69670, which is the same interest rate used in the one-year Nominal Treasury Constant Maturities rate.

In Decision No. 69670, the Commission ordered that "[n]o less often than once every two years on April 30 of even numbered years, the entire amount in the account, if \$100,000 or greater, will be either refunded to customers or utilized by APS to fund programs that will directly benefit customers as directed and approved by the Commission." In an effort to clarify

that decision, Staff believes that, in the future, APS should file no later than April 30 of even numbered years for the entire amount in the account, if greater than or equal to \$100,000, to be either refunded to customers or utilized by APS to fund programs that will directly benefit customers as directed and approved by the Commission. In addition, Staff believes that should the amount in the account reach \$1.5 million or more earlier than six months prior to an April 30 filing deadline, APS should file an application within thirty (30) days of the account reaching \$1.5 million or more for the entire amount in the account to be either refunded to customers or utilized by APS to fund programs that will directly benefit customers as directed and approved by the Commission.

RECOMMENDATIONS

Staff believes that APS' request to apply the credit customer balance in its Net Gains on Utility Property account to its DSMAC account balance is an appropriate way to benefit APS customers. In addition, Staff believes that the disposition of these funds is in compliance with Decision No. 69670. Staff further believes that APS has complied with the other conditions and limitations imposed by the Commission in connection with granting APS pre-approval to transfer, sell, mortgage, lease, assign, or otherwise dispose of used and useful property.

Therefore, Staff recommends that the Commission grant APS authorization to apply the entire \$118,079 credit customer balance in its Net Gains on Utility Property account, as of December 31, 2009, to reduce its DSMAC account balance. In addition, Staff recommends, that in the future, APS should file no later than April 30 of even numbered years for the entire amount in the account, if greater than or equal to \$100,000, to be either refunded to customers or utilized by APS to fund programs that will directly benefit customers as directed and approved by the Commission. Staff further recommends that should the amount in the account reach \$1.5 million or more earlier than six months prior to an April 30 filing deadline, APS should file an application within thirty (30) days of the account reaching \$1.5 million or more for the entire amount in the account to be either refunded to customers or utilized by APS to fund programs that will directly benefit customers as directed and approved by the Commission. Staff further recommends that all other requirements of Decision No. 69670 remain in effect until further order of the Commission.



Steven M. Olea
Director
Utilities Division

SMO:CLA:lhmc/CH

ORIGINATOR: Candrea Allen

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES

Chairman

3 GARY PIERCE

Commissioner

4 PAUL NEWMAN

Commissioner

5 SANDRA D. KENNEDY

Commissioner

6 BOB STUMP

Commissioner

7
8 IN THE MATTER OF ARIZONA PUBLIC
9 SERVICE COMPANY'S APPLICATION
10 FOR AUTHORIZATION TO APPLY THE
11 CREDIT CUSTOMER BALANCE IN ITS
12 NET GAINS ON UTILITY PROPERTY
13 ACCOUNT TO ITS DEMAND-SIDE
MANAGEMENT ADJUSTOR CHARGE
ACCOUNT

DOCKET NO. E-01345A-10-0092

DECISION NO. _____

ORDER

14 Open Meeting
15 May 26 and 27, 2010
Phoenix, Arizona

16 BY THE COMMISSION:

17 FINDINGS OF FACT

18 1. Arizona Public Service Company ("APS" or "Company") is certificated to provide
19 electric service as a public service corporation in the State of Arizona.

20 BACKGROUND

21 2. On March 12, 2010, APS filed its request for authorization to apply the credit
22 customer balance in its Net Gains on Utility Property account to its Demand-Side Management
23 Adjustor Charge ("DSMAC") account. On June 28, 2007, the Arizona Corporation Commission
24 ("Commission") issued Decision No. 69670 which granted APS pre-approval of certain property
25 transactions subject to certain conditions and limitations specified in the Order. One requirement
26 imposed on APS in Decision No. 69670, was that fifty percent of the net gain on pre-approved
27 transactions would be credited to APS ratepayers by placing the ratepayers' portion of the gain in a
28 separate account that accrues interest. In addition, Decision No. 69670 ordered that "No less often

1 than once every two years on April 30 of even numbered years, the entire amount in the account, if
2 \$100,000 or greater, will be either refunded to customers or utilized by APS to fund programs that
3 will directly benefit customers as directed and approved by the Commission. However, should the
4 amount in the account reach \$1.5 million earlier than six months prior to an April 30 disbursement
5 date, disbursement of the entire amount in the account, in the manner described above, shall be
6 undertaken as soon as practicable.”

7 3. On February 23, 2010, APS filed its Transfers of Utility Property quarterly report
8 for the fourth quarter of 2009 in Docket No. E-01345A-06-0770 in compliance with Decision No.
9 69670. APS reported a credit customer balance of \$118,079 in its Net Gains on Utility Property
10 account as of December 31, 2009.

11
12 **STAFF ANALYSIS**

13 4. In its application, APS states that because the amount of the Net Gains on Utility
14 Property account is so small, applying the \$118,079 to the DSM Charge account to reduce the
15 impact of the DSMAC would directly benefit APS customers. According to information provided
16 by APS, if the \$118,079 were directly refunded to customers on a pro rata basis, each customer
17 would receive a one time credit of approximately \$0.07. Staff agrees that applying the \$118,079 to
18 the DSMAC balance would directly benefit APS customers. This would slightly reduce the DSM
19 adjustor rate customers would pay on their electric bill. When the new DSM adjustor rate takes
20 effect with the first billing cycle in March 2011, the amount used to calculate the new rate would
21 be lower by \$118,079 plus the amount of interest that the \$118,079 would have accrued in the
22 account from the time it was paid until March 1, 2011.

23 5. Staff has reviewed the other conditions placed by Decision No. 69670 on APS' pre-
24 approval to transfer, sell, mortgage, or lease used and useful property. Based on the quarterly
25 reports filed for 2008 and 2009, Staff has determined that APS has remained within the per-
26 transaction cap and annual limitation specified in Decision No. 69670. In addition, Staff has
27 concluded that APS has met all other restrictions and reporting requirements ordered in the
28 Decision. The reported customer balance of \$118,079 represents only the customer portion of the

net gain on the property transactions and is equal to 50 percent of the entire net gain on the property transactions plus interest.

6. Staff has reviewed the other conditions placed by Decision No. 69670 on APS' pre-approval to transfer, sell, mortgage, or lease used and useful property. Based on the quarterly reports filed for 2008 and 2009, Staff has determined that APS has remained within the per-transaction cap and annual limitation specified in Decision No. 69670. In addition, Staff has concluded that APS has met all other restrictions and reporting requirements ordered in the Decision.

7. The pre-approval granted in Decision No. 69670 included lease transactions within the conditions and limitations specified in that Decision. However, lease payments are credited to Rent from Utility Property, where customers receive the full benefit of the payments¹. The lease payments are not credited to APS' Net Gains on Utility Property account where they would benefit customers only in the amount of 50 percent of the lease payment amounts. Although the revenue credit from lease transactions is not included in the Net Gains on Utility Property account, the transactions are reported in quarterly reports as required by Decision No. 69670.

8. Below are tables and summaries of the transactions beginning January 1, 2008 through December 31, 2009.

2008 Transactions in the Net Gains on Utility Property Account

Customer Account Balance as of 12/31/2007	\$271,768*
Interest from 12/31/2007 to 6/30/2008	\$4,335
Goodyear Service Center Land 5/2007	\$36,102
Customer Account Balance as of 6/30/2008	\$40,437
Interest from 6/30/2008 to 12/31/2008	\$1,266
Sundance Power Plant Easement 7/15/2008	\$57,995
Redhawk Power Plant Easement 8/11/2008	\$20,648
Customer Account Balance as of 12/31/2008	\$120,346

*Per ACC Decision No. 70295-APS applied the entire \$271,678 credit customer balance in its Net Gains on Utility Property account, to reduce the balance in its DSMAC account.

**Lease payments are credited to Rent from Utility Property, where customers receive the full benefit of the payments.

- The Goodyear Service Center Land transaction was inadvertently omitted from its 2007 second quarter Report on Transfers of Utility Property. This transaction was the sale of a portion of land at the Goodyear Service Center for a road widening project by the City.

¹ Lease payments are credited to Rent from Utility Property in accordance with the Federal Energy Regulatory Commission's ("FERC") rules and regulations on accounting and financial reporting.

- 1 ▪ APS granted an easement to Transwestern Pipeline Company which encumbered 8.42 acres
2 of land adjacent to the Sundance Power plant for construction of its Phoenix Expansion
3 Project.
- 4 ▪ APS granted an easement to Transwestern Pipeline Company which encumbered 16.42
5 acres of land adjacent to the Redhawk Power plant for construction of its Phoenix
6 Expansion Project.

2009 Transactions in the Net Gains on Utility Property Account

Customer Portion Account Balance as of 12/31/2008	\$120,346
Interest from 12/31/2008 to 6/30/2009	\$242
Santa Rosa Substation Easement 2/12/2009	\$4,207
Waddell Substation 6/1/2009	(\$6,948)
Customer Account Balance as of 6/30/2009	\$117,847
Interest from 7/1/2009 to 12/31/2009	\$232
Valley Farms Control House Sale 9/1/2009	\$0
Customer Account Balance as of 12/31/2009	\$118,079

- 11 ▪ APS granted an easement to Salt River Project encumbering 0.85 acres of land adjacent to
12 the Santa Rosa substation for use in an electric transmission line project.
- 13 ▪ In Decision No. 69670 APS was granted authorization to sell the land where the Waddell
14 Substation was located. APS filed a letter in this docket on June 10, 2009, advising the
15 Commission that the new area substation was operational, that all APS equipment had been
16 removed from the site, and that the transaction was complete.
- 17 ▪ APS and Western Area Power Authority ("WAPA") expanded the Valley Farms Substation
18 (69 kV to 12 kV). APS built a new control house and therefore APS sold the previous
19 control house to WAPA to be used for the new connections of its lines to Coolidge and
20 Hayden. The control house was sold at net book value and eliminated the cost of removing
21 the old control house for APS.

22 9. In addition, the interest rate used is the same rate used to accrue interest on
23 customer deposits as specified in Decision No. 69670, which is the same interest rate used in the
24 one-year Nominal Treasury Constant Maturities rate.

25 10. In Decision No. 69670, the Commission ordered that "[n]o less often than once
26 every two years on April 30 of even numbered years, the entire amount in the account, if \$100,000
27 or greater, will be either refunded to customers or utilized by APS to fund programs that will
28 directly benefit customers as directed and approved by the Commission."

11 11. In an effort to clarify that decision, Staff believes that, in the future, APS should file
12 no later than April 30 of even numbered years for the entire amount in the account, if greater than

1 or equal to \$100,000, to be either refunded to customers or utilized by APS to fund programs that
2 will directly benefit customers as directed and approved by the Commission. In addition, Staff
3 believes that should the amount in the account reach \$1.5 million or more earlier than six months
4 prior to an April 30 filing deadline, APS should file an application within thirty (30) days of the
5 account reaching \$1.5 million or more for the entire amount in the account to be either refunded to
6 customers or utilized by APS to fund programs that will directly benefit customers as directed and
7 approved by the Commission.

8 **RECOMMENDATIONS**

9 12. Staff believes that APS' request to apply the credit customer balance in its Net
10 Gains on Utility Property account to its DSMAC account balance is an appropriate way to benefit
11 APS customers. In addition, Staff believes that the disposition of these funds is in compliance
12 with Decision No. 69670. Staff further believes that APS has complied with the other conditions
13 and limitations imposed by the Commission in connection with granting APS pre-approval to
14 transfer, sell, mortgage, lease, assign, or otherwise dispose of used and useful property.

15 13. Therefore, Staff has recommended that the Commission grant APS authorization to
16 apply the entire \$118,079 credit customer balance in its Net Gains on Utility Property account, as
17 of December 31, 2009, to reduce its DSMAC account balance. In addition, Staff has
18 recommended that, in the future, APS should file no later than April 30 of even numbered years
19 for the entire amount in the account, if greater than or equal to \$100,000, to be either refunded to
20 customers or utilized by APS to fund programs that will directly benefit customers as directed and
21 approved by the Commission. Staff has further recommended that should the amount in the
22 account reach \$1.5 million or more earlier than six months prior to an April 30 filing deadline,
23 APS should file an application within thirty (30) days of the account reaching \$1.5 million or more
24 for the entire amount in the account to be either refunded to customers or utilized by APS to fund
25 programs that will directly benefit customers as directed and approved by the Commission. Staff
26 has further recommended that all other requirements of Decision No. 69670 remain in effect until
27 further order of the Commission.

28 ...

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 0
- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 0
- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8

2
3

4
5

6
7
8
9

0

- 1
- 2
- 3
- 4

5
6
7
8
9

20
21
22
23
24
25

26

27

28

1 IT IS FURTHER ORDERED that all other requirements of Decision No. 69670 remain in
2 effect until further order of the Commission.

3 IT IS FURTHER ORDERED that this Order shall become effective immediately.
4

5 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**
6
7

8 CHAIRMAN

COMMISSIONER

9
10
11 COMMISSIONER

COMMISSIONER

COMMISSIONER

12
13 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
14 Executive Director of the Arizona Corporation Commission,
15 have hereunto, set my hand and caused the official seal of
16 this Commission to be affixed at the Capitol, in the City of
17 Phoenix, this _____ day of _____, 2010.

18 _____
19 ERNEST G. JOHNSON
20 EXECUTIVE DIRECTOR

21 DISSENT: _____

22 DISSENT: _____

23 SMO:CLA:lh\CH
24
25
26
27
28

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NOS. E-01345A-10-0092

3 Mr. Thomas L. Mumaw
4 Arizona Public Service Company
5 Mail Station 8695
6 Post Office Box 53999
7 Phoenix, Arizona 85072-3999

8 Mr. Steven M. Olea
9 Director, Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Ms. Janice M. Alward
14 Chief Counsel, Legal Division
15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007